RECORD
AND
BRIEFS

No. 15-1189

In the Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,
Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF *AMICI CURIAE* OF AUTO CARE ASSOCIATION AND INTERNATIONAL IMAGING TECHNOLOGY COUNCIL IN SUPPORT OF THE PETITIONER

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STATEMENT OF INTEREST[1]

Amici are not-for-profit associations that, *inter alia*, represent the interests of companies that compete against original equipment manufacturers ("OEMs") for sale of replacement parts and consumable goods, and for provision of services that constitute lawful repair under the patent laws.[2]

Auto Care Association ("Auto Care") is a national trade organization of 3,000 members representing more than 150,000 independent businesses that manufacture, distribute, and sell motor vehicle parts, accessories, tools, equipment, materials, and supplies, and perform vehicle service and repair. This independent auto care industry adds some $340 billion annually to the American economy (about 1.9% of GDP), and provides employment to more than 4.3 million workers.

International Imaging Technology Council ("I-ITC") represents the interests of the imaging supplies industry, including office-machine retail and repair, office-supply retail, computer retail, repair and networking companies, and all related industry suppliers. An estimated 2,000 domestic businesses

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[1] The parties have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than amicus curiae, its members, or its counsel made a monetary contribution to its preparation or submission.

[2] Various industries call these repair activities "rebuilding," "recharging," "reconditioning," "customization," or "remanufacturing."

employ some 50,000 workers in the United States to recondition and repair office imaging supplies. In 2015, consumers spent more than $15 billion for repair and maintenance of electronic and precision equipment, approximately $5 billion of which was attributable to computer and office machine repair and maintenance.[3]

Companies represented by amici run the gamut from large, technologically-sophisticated entities with substantial intellectual property portfolios to small operators that service local customers. The technology products they manufacture, service, and sell contain removable and consumable parts that can be repaired or refurbished many times. Following expiration of a new car warranty, over 70% of car owners who patronize auto repair shops rely on independent repair shops over new car dealers. Acquisition guidelines of federal agencies, state and municipal governments, and corporations give preference to purchasing refurbished and recycled toner cartridges.[4] The computer printers in Court chambers likely use recycled remanufactured cartridges.

The businesses built by amici depend on the patent exhaustion doctrine for their right to repair equipment.

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[3] U. S. Census Bureau, 2015 Annual Services Report, Table 2: Estimated Revenue by Tax Status for Employer Firms: 2007 through 2015, www.census.gov/services/index.html.

[4] Environmental Protection Agency, Comprehensive Procurement Guidelines, Non-paper Office Products, https://www.epa.gov/smm/comprehensive-procurement-guidelines-non-paper-office-products#08.

The Federal Circuit's decision[5] threatens that right to repair by granting patentees new ways to preclude exhaustion and, thereby, block competition that benefits domestic commerce and consumer rights. Therefore, the amici respectfully submit this brief so the Court may better understand the harm the Federal Circuit's misinterpretation of the exhaustion rule will cause to aftermarket commerce generally and our industries in particular.

SUMMARY OF ARGUMENT

Businesses that maintain, repair, customize, refurbish, and resell durable goods rely on this Court's long-standing precedents holding the authorized sale of a patented article exhausts the patentee's right to restrict post-sale uses of that article. This exhaustion principle, rooted in the common law, has consistently been an essential balancing element in our patent laws. After an authorized sale, any commercial terms that purport to limit the purchaser's post-sale rights are to be adjudged under contract law. This articulation of the exhaustion rule properly balances the patent owner's exclusive rights with the consumer's right to reuse, resell, repair, and improve lawfully-acquired property, and the public interest to prevent unfair competition.

Impression Products upends this balance, to the detriment of competition and the public interest.

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[5] *Lexmark Int'l, Inc. v. Impression Products, Inc.*, 816 F.3d 721 (Fed. Cir. 2016) (hereinafter "*Impression Products*").

1. The line of cases from *Mallinckrodt*[6] to *Impression Products* attempts to resurrect exhausted patent rights following an authorized sale, thereby enabling patent owners to assert infringement against consumers and third-party competitors for otherwise-lawful repair. *Impression Products* effectively outlaws commonplace activities, such as repair and customization of elements of a personal computer, an automobile, or any products with consumable or repairable parts, unless performed by or under license from the patentee. Consumers and aftermarket competitors targeted by these post-sale restrictions may not know whether the restriction exists or, even if embossed on the device itself, whether the restriction is valid or enforceable. Yet, under *Impression Products*, these consumers and aftermarket competitors could be sued and potentially held liable for patent infringement.

Impression Products cannot be squared with the holding of *Quanta Computer, Inc. v. LG Elecs., Inc.*, 128 S. Ct. 2109 (2008) that an authorized sale exhausts the patentee's rights. There is no dispute in this case that all Lexmark's cartridge sales, to end-users and resellers, were authorized sales. Full title passed to the first purchaser upon the authorized sales, and upon that sale Lexmark's right to assert its patents against post-sale uses terminated. The restriction purportedly imposed by the notice neither restricted the right to sell, nor retained any rights under patent law prior to the sale. By its terms, as a matter of contract law, that restriction became a binding legal obligation only upon

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[6] *Mallinckrodt, Inc. v. Medipart,* Inc., 976 F.2d 700 (Fed. Cir. 1992).

opening the box or installing the cartridge – not at time of purchase; and it only restricted, post-sale, the recycling of the empty cartridge. As a result, all patent rights were exhausted upon the first sale, and any post-sale limitations could be enforceable only under contract or commercial law.

2. *Impression Products* would impose unbounded liability upon purchasers of imported patented articles, regardless of whether the owner of the foreign and domestic patents had authorized the sale. While "the inconvenience and annoyance to the public" from *Impression Products* may well be "too obvious to require illustration,"[7] here is but one example. Automobiles "made" in the United States incorporate hundreds of patented parts, many of which are manufactured abroad. Conversely, automobiles "made" in foreign countries use parts designed and manufactured in the United States. It is impossible for a consumer or servicer to know where each part was first sold, whether a part is patent-protected, or who owns the patents on a part. Neither the holding of the Federal Circuit nor the rule proposed by the United States gives any practical way for purchasers of such automobiles, whether produced domestically or abroad, to know whether repairs or resales are authorized or infringing.

Impression Products ignores the holding of this Court in *Kirtsaeng*[8] that the common law underlying patent exhaustion has no geographic limitations. Thus,

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[7] *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 667 (1895).

[8] *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363-1364 (2013).

contrary to the *Jazz Photo*[9] line of cases, an authorized sale by the owner of the U.S. patent exhausts all rights under that patent, regardless of whether the sale first is made abroad.

3. The threat of potentially devastating patent infringement liability chills competition by aftermarket businesses. Patent suits involve technically complex issues of infringement, claim construction, and validity, and are extremely expensive to defend. Enhanced damages, attorney fees, and preliminary and permanent injunctive relief pose intolerable risks for smaller entrepreneurial companies. By contrast, suits based on contract, as should be the norm under the Court's exhaustion rule, are far less expensive to defend and less likely to jeopardize a company's long-term survival. Reaffirmation of this Court's exhaustion rule will protect the public's right to repair and stimulate investment in aftermarket industries.

Reaffirming the scope of patent exhaustion will restore the proper balance between patent rights and antitrust law. Post-sale patent conditions and infringement lawsuits typically target competitors for supplies and repair services rather than purchasers that purportedly agreed to the restrictions. By misinterpreting the scope of patent exhaustion, the Federal Circuit necessarily proscribes lawful aftermarket competition and limits antitrust defenses – thereby restricting consumer choice, increasing consumer prices, and stifling aftermarket innovation.

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[9] *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed. Cir. 2001).

ARGUMENT

I. *QUANTA* REJECTED PATENT-BASED POST-SALE USE RESTRAINTS, THERE-BY OVERRULING THE "CONDITIONAL SALES" THEORY UNDERPINNING *IMPRESSION PRODUCTS*.

In *Quanta*, this Court held that an *authorized sale* exhausts all of the patent-holder's rights in the vended article, such that downstream restrictions on post-sale uses of such article cannot be enforced under patent law. *Id.*, 553 U.S. at 621, 625, 631, 636, 637 & n.7, 638.[10] *Quanta* overruled *L.G. Elecs., Inc. v. Bizcom Elecs., Inc.*, 453 F.3d 1364 (Fed. Cir. 2006) ("*Bizcom*") which, in turn, relied on the *Mallinckrodt* line of cases that held, *despite* an authorized sale, post-sale conditions on use (a "conditional sale") could preserve a patentee's rights against exhaustion. But *Quanta*'s teaching is clear: an authorized sale terminates the

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[10] *Quanta* left open the possibility that a patent owner might retain *contract law* remedies for breach of post-sale conditions, while making clear that *patent law* remedies are unavailable. *Quanta* is only the most recent reflection of the Court's hostility to attempts to use patent law, rather than contract law, to enforce post-sale restrictions:

> "[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. Whether a patentee may protect himself and his assignees by special contracts brought home to the purchasers is not a question before us, and upon which we express no opinion. It is, however, obvious that such a question would arise as a question of contract, and not as one under the inherent meaning and effect of the patent laws."

Keeler v. Standard Folding-Bed Co., 157 U.S. at 666.

patentee's rights in that article, and renders downstream post-sale use conditions unenforceable under patent law.

The outcome here is equally clear. Lexmark authorized the cartridge sales to its customers in the United States and abroad. Lexmark's resellers had "full authority to sell the Return Cartridges that practiced Lexmark's patents"; hence, the notices of a restriction on the end user "do not prevent patent rights from being exhausted given that the initial sales were authorized and unrestricted."[11] Under *Quanta*, therefore, patent law cannot prevent otherwise-lawful post-sale use following an authorized sale. "[T]he fully authorized sales of the Return Program cartridges to consumers for use in the ordinary pursuits in life took the cartridges outside the scope of the patent monopoly despite the notices contained on those cartridges, and Lexmark may not now rely on patent law to hold Impression Products liable for infringement."[12]

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[11] *Lexmark Int'l Inc. v. Ink Techs. Printer Supplies, LLC*, 2014 U.S. Dist. LEXIS 41045, at *22 (S.D. Ohio Mar. 27, 2014) ("*Ink Techs.*"). The district court in *Static Control Components v. Lexmark Int'l, Inc.*, likewise found all Lexmark's cartridge sales were authorized. 615 F. Supp. 2d 575, 584-585, 588 (E.D. Ky. 2009).

[12] *Ink Techs.*, 2014 U.S .Dist. LEXIS 4105, at *24. *See also Static Control*, 615 F. Supp. 2d at 584 ("Lexmark attempts to reserve patent rights in its products through post-sale restrictions on use imposed on its customers. This is what *Quanta* says Lexmark cannot do.").

A. Under *Quanta*, Post-Sale Use Restrictions Cannot Revive Patent Rights Exhausted by Authorized Sale.

Quanta turned on the fundamental distinction between licenses restricting the right to *sell* and post-sale conditions on *use*. Patentholder LG Electronics ("LGE") had not restricted Intel's authority to sell microchips, but attempted by written notices to impose use restrictions on the microchip purchasers. The Federal Circuit, following its prior rulings that patent exhaustion is not triggered by a "conditional" sale,[13] held LGE's notice made Intel's sales conditional and no exhaustion occurred. *Bizcom*, 453 F.3d at 1369. This Court reversed. Reaffirming that exhaustion occurs upon an authorized sale, *Quanta* precluded patent-based enforcement of LGE's post-sale use restrictions because the restrictions did not limit Intel's authority to sell.[14]

Impression Products places undue weight on the Patent Act's definition of patent infringement as "without authority." 35 U.S.C. § 271(a). Courts must presume that Congress intended to retain the substance of the common law of exhaustion unless

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[13] *B. Braun Med. Inc. v. Abbott Labs.*, 124 F.3d 1419 (Fed. Cir.1997); *Mallinckrodt*.

[14] *Quanta* also struck down the *Bizcom* (and *Mallinckrodt/B. Braun*) rationale allowing a patent owner to claim royalties at multiple points in the usage chain, as inconsistent with its exhaustion determinations in *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539 (1852); *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873); *Keeler*, *supra* note 7, at 5; and *United States v. Univis Lens, Inc.*, 316 U.S. 241 (1942). *Cf. Keurig, Inc. v. Sturm Foods, Inc.*, 732 F.3d 1370, 1375 (Fed. Cir. 2013).

clearly amended by statute.[15] No contrary intention is evident from the Patent Act. This Court has made clear (over more than 150 years) that the requisite "authority" of the purchaser comes from the common law of exhaustion. And the Court's post-1952 cases reinforce the scope and reach of the exhaustion doctrine, thereby confirming that nothing in the Patent Act overrides the common law of patent exhaustion. *See, e.g.*, *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013); *Quanta*; *see also Kirtsaeng*.

The Federal Circuit's "conditional sales" theory blurs crucial distinctions in this Court's precedents between restrictions on a licensee's authority to sell and a purchaser's rights after authorized sale. From the first articulations of the patent exhaustion doctrine in *Bloomer*, the Court held: "when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly. It passes outside of it, and is no longer under the protection of the act of Congress." *Id.*, 55 U.S. (17 Wall.) at 549. Applying that rule in *Adams v. Burke*, the Supreme Court held that restrictions circumscribing a licensee's right to sell could not restrict the purchaser's post-sale right to use. *Id.*, 84 U.S. at 455.

Impression Products misconstrues *General Talking Pictures Corp. v. Western Electric Co.*, 304 U.S. 175 (1938), the holding of which is consistent with *Bloomer*, *Quanta*, and the district court below in *Ink Techs.* In *General Talking Pictures*, the patent owner licensed the manufacture of patented amplifiers with a

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[15] *See Samantar v. Yousuf*, 560 U.S. 305, 320 n.13 (2010); Antonin Scalia & Bryan A. Garner, *Reading Law: The Interpretation of Legal Texts* 318 (2012).

restriction on the manufacturer's right to sell to commercial users. *Id.* at 179-180. Any sale by the licensee to commercial users violated the license field of use, so by definition was an unauthorized sale that did not trigger exhaustion. Accordingly, *General Talking Pictures* reached a different conclusion based on distinguishable facts. *General Talking Pictures* illustrates the distinction between authorized and unauthorized sales—not whether post-sale conditions survive exhaustion after an authorized sale.[16]

Further evidence that *General Talking Pictures* addressed the authority to sell and not a post-sale right to use is found in its discussion of *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1873). The license in *Mitchell* explicitly provided that licensee "shall not, in any way, or form, dispose of, sell, or grant any license to use the said machines" beyond the initial patent term. *Id.* at 549. The licensee "never had any power to sell a machine so as to withdraw it indefinitely from the operation of the franchise secured by the patent." *Id.* at 551. Accordingly, "[Respondent in *Mitchell*] could not convey to petitioner what both knew it was not authorized to sell." *Gen. Talking Pictures*, 304 U.S. at 181 (citation omitted). Thus, *General Talking Pictures* does not address the situation here, where no restriction applied at the time of the authorized sale, and provides no support for *Mallinckrodt*'s "conditional sales" theory.

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[16] That Court declined to address whether a post-sale use condition can restrict a purchaser's rights after an authorized sale, inasmuch as the sales were unauthorized. *Id.*, 304 U.S. at 177.

B. *Mallinckrodt*'s Conditional Sales Theory was Overruled by *Quanta*.

Both courts to directly consider the question[17] and the majority of commentators[18] recognize that *Quanta* overruled the "conditional sales" theory of *Mallinckrodt*. By squarely reversing the "conditional sales" exception in *Bizcom*, *Quanta* necessarily rejected the same holding in the cases upon which *Bizcom* relied—*Mallinckrodt* and *B. Braun*. That rejection is evident when applying *Quanta*'s exhaustion rule to the facts of *Mallinckrodt*: the authorized sale to the hospitals would exhaust the patentee's right and render that "single use only" restriction unenforceable under patent law.

It is irrelevant that *Quanta* did not reverse *Mallinckrodt* by name. *Impression Prods.*, 816 F.3d at

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[17] *Ink Techs.*, 2014 U.S. Dist. LEXIS 41045, at *22-24; *Static Control*, 615 F. Supp. 2d at 585-586 ("*Quanta* overruled *Mallinckrodt sub silentio*. The Supreme Court's broad statement of the law of patent exhaustion simply cannot be squared with the position that the *Quanta* holding is limited to its specific facts. Further, the Federal Circuit relied in part on *Mallinckrodt* in reaching its decision in ... the decision the Supreme Court reversed in *Quanta*"); *see also Ergowerx Int'l LLC v. Maxell Corp. of Am.*, 18 F. Supp. 3d 430, 448 (S.D.N.Y. 2014).

[18] *See, e.g.*, John F. Duffy and Richard M. Hynes, *Statutory Domain and the Commercial Law of Intellectual Property*, 102 Va. L. Rev. 1 (2016); Alfred C. Server and William J. Casey, *Contract-Based Post-Sale Restrictions on Patented Products Following Quanta*, 64 Hastings L.J. 561, 596 (Apr. 2013); Thomas G. Hungar, *Observations Regarding the Supreme Court's Decision in Quanta Computer, Inc. v. L.G. Electronics, Inc.*, 49 IDEA – Intell. Prop. L. Rev. 517, 533 (2009) ("*Mallinckrodt's* 'conditional sale' rationale is no longer good law.").

738. *Quanta* also reversed *Bizcom*'s holding on exhaustion of method patents, thereby overruling *sub silentio* the Federal Circuit's pre-*Bizcom* cases that held method patents could not be exhausted.[19] The same is true for *Mallinckrodt*'s "conditional sales" theory.

C. Lexmark's "Return" Program Terms Do Not Alter the Authorized Sale of the Cartridges.

It is undisputed that all sales by Lexmark were authorized sales. Both district courts to review Lexmark's infringement allegations so concluded, regardless of whether the sales were made to resellers or end-customers. *Ink Techs.*, 2014 U.S. Dist. LEXIS 41045, at *22; *Static Control*, 615 F. Supp. 2d at 585. Lexmark did not appeal that finding as clearly erroneous, and the Federal Circuit accepted the finding.

But a "notice" by itself has no legal effect, until and unless it creates a contractual obligation. Under Supreme Court precedent, an enforceable restriction on the right to sell took the form of a legal agreement between parties, such as a license agreement from the patentee to a manufacturer. *See Gen. Talking Pictures.* But here, the Federal Circuit only required that the "notice" to the user be "clearly communicated," without explanation or analysis of whether or how such a "notice" could be legally enforceable against a purchaser. *Impression Products*, 816 F.3d at 726.

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[19] *See, Glass Equip. Dev., Inc. v. Besten, Inc.*, 174 F.3d 1337 (Fed. Cir. 1999); *Bandag Inc. v. Al Bolser's Tire Stores, Inc.*, 750 F.2d 903 (Fed. Cir. 1984).

Indeed, the opinion does not even state the terms of the notice that purportedly restricts the purchaser's rights. And, it incorrectly presumes that any use restrictions must constrain the rights of an end consumer when the first sale was to a retailer.

The Federal Circuit ignored key questions crucial to this or any case attempting to restrict the scope of patent exhaustion: *how* is a contractual relationship created; between *whom*; *when*; and *what terms* govern that relationship. Had the court addressed these questions, it necessarily would have concluded that any "notice" could not restore patent rights exhausted upon the first sale, and at most restricted post-sale usage rights under contract law.

First, Lexmark's authorized sale occurs before purchasers can accept any use restrictions.[20] By its terms, a new "agreement" comes into existence only *after* the sale is complete: "*Opening this package or using the patented cartridge inside* confirms your acceptance of the following license agreement." Joint Appendix ("JA") 88-89 (emphasis added). Purchasers pay for and own full title to a cartridge before the box is opened or the cartridge is installed.[21] Thus,

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[20] Sales of Lexmark Prebate cartridges were unconditional. Anyone could walk into a store carrying Lexmark Prebate cartridges and purchase one. Anyone could purchase Lexmark Prebate cartridges directly from Lexmark through its website. *No potential buyer was required to agree to abide by the Prebate terms before purchasing a cartridge.*

Static Control, 615 F. Supp. 2d at 585, (emphasis added).

[21] Ohio Rev. Code § 1302-42 (2012). End-users obtained full title to the cartridge from Lexmark or resellers. The terms purport only

consumers cannot accept Lexmark's post-sale condition, and a binding contract is not formed, until *after* the authorized sale has occurred. Moreover, the first sale to resellers is free of any restriction, since they neither open the boxes nor use the cartridge, and the cartridge passes, post-exhaustion, to the end user.

Second, Lexmark's terms affect only *post-sale use* and do not restrict the initial authority to *sell*. They purport to limit only what the end-user can do with a used cartridge; specifically, that a consumer wishing to recycle a used cartridge should return it to Lexmark.[22]

Thus, Lexmark's terms did not limit the authority to sell, as in *Gen. Talking Pictures*. Each authorized sale was completed, and full title passed to the cartridge purchaser, before the "notice" had any legal effect. Any contract created by the Return program terms, like the notices in *Bizcom* or *Mallinckrodt*, came into being after the authorized sale, and therefore after Lexmark's patent rights already were exhausted. The terms therefore are unenforceable under patent law.

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to restrict recycling of spent cartridges: "Under the Prebate program, customers have three options for their empty cartridges: keep them, throw them in the trash, or return them to Lexmark." *Static Control*, 487 F. Supp. 2d 861, 871 (E.D. Ky. 2007).

[22] JA 88 ("RETURN EMPTY CARTRIDGE TO LEXMARK FOR RECYCLING. ... Following this initial use, you agree to return the empty cartridge only to Lexmark for recycling"). *Compare Static Control v. Lexmark Int'l, Inc.*, 697 F.3d 387, 396 (6th Cir. 2012); *Static Control*, 615 F. Supp. 2d at 577 n.3. Under the current narrowed scope of the Return terms, remanufacturing would not be infringement even under Lexmark's theory.

II. PROPER INTERPRETATION OF THE EXHAUSTION DOCTRINE MAINTAINS SUPREME COURT PRECEDENTS DISTINGUISHING REPAIR FROM RECONSTRUCTION.

The aftermarket competitors represented by the *amici* engage in lawful repair, and provide consumers with high quality products and services at competitive prices. Inherent in the district court's conclusion of noninfringing exhaustion in this case is that the defendants engage in lawful repair. *Static Control* explicitly held that remanufacture of used Lexmark cartridges constituted lawful repair, not infringing reconstruction—a holding Lexmark did not appeal.[23]

Moreover, the marketplace favors the quality and availability of replacement cartridges. Acquisition guidelines of federal agencies, state and municipal governments, and corporations express preferences for purchase of refurbished and recycled products.[24] In all likelihood, the printers used by this Court run on remanufactured toner cartridges such as those produced by members of the *amici*.

The doctrine of noninfringing repair is nearly as old as the American industrial revolution. "Since [1850], it has been the established law that a patentee has not 'a more equitable right to force the disuse of the machine entirely, on account of the inoperativeness of a part of

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[23] *Id.*, 615 F. Supp. 2d at 588. *See also*, *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Corp.*, 123 F.3d 1445 (Fed. Cir. 1997), *cert. denied*, 523 U.S. 1022 (1998) (modifying ink jet cartridges for resale constitutes repair).

[24] *See* 40 C.F.R. § 247.16 (2017).

it, than the purchaser has to repair, who has, in the whole of it, a right of use.'"[25] Permissible repair has been found in a broad range of commercial products and services.[26] This distinction protects the patent owner against only those who re-make the invention anew,[27] while promoting the paramount public interest in commerce pertaining to patented goods.

A. The Federal Circuit's Crabbed View of the Patent Exhaustion Doctrine Thwarts the Public's Right to Repair.

The thousands of businesses that customize and repair products and supply replacement parts,

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[25] *Heyer v. Duplicator Mfg. Co.*, 263 U.S. 100, 101 (1923) (machine owner could buy replacement bands other than from patent owner), citing *Wilson v. Simpson*, 50 U.S. (9 How.) 109, 123 (1850) (owner of a patented planing machine could replace worn-out cutting blades).

[26] Automobiles: *Aro Mfg Co. v. Convertible Top Replacement Co.*, 365 U.S. 336 (1961) (Justice Black, concurring) (replacement convertible tops); *Dana Corp. v. Am. Precision Co., Inc.*, 827 F.2d 755 (Fed. Cir. 1987) (rebuilt automobile clutches).

Surfboards: *Surfco Hawaii v. Fin Control Sys. Pty. Ltd.*, 264 F.3d 1062 (Fed. Cir. 2001), *cert. denied sub nom. Fin Control Sys. Pty. Ltd. v. Surfco Hawaii*, 536 U.S. 939 (June 24, 2002) (replacement fins).

Medical Devices: *Kendall Co. v. Progressive Med. Tech.*, 85 F.3d 1570, 1576 (Fed. Cir. 1996) (replacing unspent parts).

Injection Molding Machinery: *Husky Injection Molding Sys. v. R&D Tool & Eng'g*, 291 F.3d 780 (Fed. Cir. 2002).

Kitchen: *Bottom Line Mgt., Inc. v. Pan Man, Inc.*, 228 F.3d 1352, 1355 (Fed. Cir. 2000) (resurfacing cooking plates).

Disposable Cameras: *Jazz Photo Corp*, 264 F.3d at 1098-99 (Fed. Cir. 2001) (approving eight-step repair process).

[27] *See Wilbur-Ellis Co. v. Kuther*, 377 U.S. 422, 424 (1964).

including those represented by *amici*, provide vital services to the domestic economy. Automotive parts businesses commonly repair hundreds of reusable parts (*e.g.*, transmissions, alternators, brakes, clutches, and controlled velocity joints), and repair shops customize and upgrade car engines using aftermarket parts. Suppliers in the imaging industry repair toner and ink-jet cartridges for business and home office use with specialized mechanical parts and computer chips that regulate and upgrade printing operations. Consumers upgrade computers by adding storage, memory, and graphics processing and gaming boards. Consumers benefit from this competition through lower prices, higher quality, and competitive features.

But these businesses need bright-line rules to avoid the "disastrous or even lethal consequences" of patent infringement suits:

> [B]usinessmen are certainly entitled to know when they are committing an infringement.... But to what avail these congressional precautions if this Court, by its opinions, would subject small businessmen to the devastating uncertainties of nebulous and permissive standards of infringement under which courts could impose treble damages upon them....[28]

The patent exhaustion doctrine preserves the right to repair against unlawful anticompetitive restraints. The "conditional sales" doctrine trammels the rights of

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[28] *Aro*, 365 U.S. at 358-359 (Black, J., concurring). *Cf. Kirtsaeng*, 133 S. Ct. at 1365 (geographical limits on exhaustion could subject retailers to "the disruptive impact of the threat of infringement suits.).

a patentee's competitors and the public to repair patented articles and replace unpatented components. Preserving the right to repair provides another reason to give *Quanta* its full effect, by overruling *Mallinckrodt*.

B. "Conditional Sales" Cases Create Uncertainty in the Courts and the Marketplace, a Trend This Court Should Reverse.

Predictably,[29] the sea change worked by *Mallinckrodt* spawned more intrusive efforts by patent owners to stymie aftermarket competition. *Quanta* should have laid those concerns to rest. But Lexmark and others continue to argue *Mallinckrodt* as justification for patent-based intrusions on lawful repair, to the detriment of consumers and competition.[30]

Post-sale use restrictions like Lexmark's block the wheels of commerce. Although repair and supplies businesses can read patents to evaluate whether their activities constitute repair and not reconstruction, they cannot know whether products and components are subject to post-sale restrictions. As this Court's decisions illustrate, even where articles are marked

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[29] *See Dawson Chem. Co. v. Rohm & Haas Co.*, 448 U.S. 176, 190 (1980), describing the rapid adoption of conditional licensing, and the ensuing corrosive effects on commerce arising from *Henry v. A.B. Dick Co.*, 224 U.S. 1 (1912) – a result soon reversed by *Motion Picture Co. v. Universal Film Co.*, 243 U.S. 502, 515 (1917).

[30] *See also, Keurig*, 732 F.3d at 1374 (describing attempted restriction on use of competing coffee cartridges as an "end-run around exhaustion").

with a restrictive legend nearly identical to the notice in *Mallinckrodt*, the mere existence of such a "notice" does not make it *per se* valid or enforceable.[31] Regardless of whether consumers and aftermarket competitors actually see purported post-sale restrictions, they cannot know whether or how those terms affect their right under patent law to repair devices they lawfully own. Yet, the "conditional sales" cases would subject these consumers and businesses to liability for patent infringement.

Attempts to impose patent-based post-sale use restrictions should be considered null and void, and in certain cases could be patent misuse.[32] But until the law is fully settled, those who supply and repair products with replaceable parts will unjustly be subjected to threats of infringement litigation, and consumers will bear the costs of this market confusion sown by the patent owner.

Aftermarket competitors need a bright-line test for exhaustion to stimulate investment and promote lawful commerce. Suppliers and servicers—including many

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[31] *See, e.g., Kendall Co.*, 85 F.3d at 1575 (finding permissible repair by replacing with aftermarket parts a pressure sleeve sold in packaging marked "FOR SINGLE PATIENT USE ONLY"); *Sage Prods. Inc. v. Devon Indus. Inc.*, 45 F.3d 1575, 1578 (Fed. Cir. 1995) (finding repair by aftermarket replacement of used containers marked "single use only").

[32] *Cf. Omega, S.A. v. Costco Wholesale Corp.*, 2011 WL 8492716 (E.D. Cal. Nov. 9, 2011) (Order and J.), *aff'd* No. 11-57137 (9th Cir. Jan. 20, 2015) (granting summary judgment, on remand of case involving copyright first sale doctrine, that plaintiff committed copyright misuse by engraving a copyrighted image on the reverse of a watch solely to enforce against unauthorized importation).

small, family-owned enterprises—can readily evaluate their business plans under familiar principles of contract law. But if they cannot reasonably assess their risks under patent law, then the threat of patent litigation, increased damages, attorney fee awards, and injunctions will stifle investment and chill competition. *Quanta*'s clear test enables business owners to compete in repair and customization aftermarkets with confidence. Rejection of the "conditional sales" theory will provide needed certainty to aftermarket repair industries, promote consumer benefit and competition, and reduce the risk of unwarranted patent infringement litigation–without depriving patent owners of benefits earned from an authorized sale.

III. AN AUTHORIZED SALE, WHEREVER MADE, EXHAUSTS ALL PATENT RIGHTS IN THE VENDED ARTICLE.

A. Patent Exhaustion is a Matter of Common Law, Which Has No Geographic Restrictions.

The exhaustion doctrine traces its roots back nearly 400 years, to the time of Lord Coke and "the common law's refusal to permit restraints on alienation of chattels."[33] *Kirtsaeng* applied this common-law exhaustion principle to copies of copyrighted works, and affirmed that a straightforward application of the doctrine encompasses sales of copies made abroad. *Id.*, 133 S. Ct. at 1363-1364. The exhaustion doctrine promotes competition and consumer rights, "leaving

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[33] *Kirtsaeng*, 133 S. Ct. at 1363 (exhaustion at common law has "an impeccable historic pedigree"); *LifeScan Scotland, Ltd. v. Shasta Techs., LLC*, 734 F.3d 1361, 1376 (Fed. Cir. 2013).

buyers of goods free to compete with each other when reselling or otherwise disposing of those goods." *Id.*, 133 S. Ct. at 1363. Moreover, exhaustion frees commercial enterprise and the courts from the impossible burdens of determining and enforcing restrictions upon goods whose provenance cannot readily be traced. *Id.*, 133 S. Ct. at 1363, 1365.

Kirtsaeng's reasoning applies with greater force to patent exhaustion, for three reasons. *First*, although the Copyright Act has codified the first sale exemption from infringement liability,[34] patent law has no statutory exhaustion provision and exists solely as a creature of common law.[35] Thus, the scope of exhaustion under patent law must be coextensive with common law exhaustion which, as *Kirtsaeng* confirms, "makes no geographic distinctions." *Id.*, 133 S. Ct. at 1363. *Second*, whatever other differences exist between patent and copyright, for more than 100 years the Supreme Court has recognized no distinction between the rights implicated by exhaustion of copyright or patent law.

> Congress had no intention to use the term 'vend' in one sense in the patent act and 'vending' in another in the copyright law. Protection in the exclusive right to sell is aimed at in both instances, and the terms used in the statutes are to all intents the same.

Bauer & Cie. v. O'Donnell, 229 U.S. 1, 13 (1913). Consequently, the scope of exhaustion following

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[34] 17 U.S.C. § 109(a).

[35] *Helferich Patent Licensing, Inc. v. The New York Times Co.*, 778 F.3d 1293, 1305 (Fed. Cir. 2015).

authorized sale of a patented article or exemption from the respective rights of a patent and copyright owner to control distribution is "to all intents the same." *Third*, by citing *Bobbs-Merrill v. Straus*,[36] the *Kirtsaeng* Court further confirmed the applicability and equivalence of exhaustion in the patent and copyright contexts. The Court consistently has cited the same exhaustion principles animating *Bobbs-Merrill* when invalidating attempts to justify post-sale price restraints under patent law. *See, United States v. General Elec. Co.*, 272 U.S. 476, 493-494 (1926) (characterizing invalidation of resale price restrictions in patent cases and *Bobbs-Merrill* as applications of exhaustion principles of *Adams v. Burke*); *Boston Store of Chicago v. Am. Graphophone Co.*, 246 U.S. 8, 21-23 (1918) (discussing *Bobbs-Merrill* and the equivalence of copyright and patent exhaustion in *Bauer*).

B. Neither *Impression Products* Nor *Jazz Photo* Has Any Basis in Supreme Court Precedent.

The Federal Circuit's international exhaustion decisions in *Impression Products* and *Jazz Photo* have no mooring in Supreme Court precedent, and their reliance on *Boesch v. Graff*[37] is inapposite. There, a German manufacturer possessed a prior use right under German law to make and sell the articles. The manufacturer's sales were made without any authorization of the patent owner, and consequently did not result in exhaustion. Thus, *Boesch* does not support *Jazz Photo*'s broad conclusion that "the

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[36] 210 U.S. 339 (1908).

[37] 133 U.S. 697 (1890).

authorized first sale must have occurred under the United States patent," inasmuch as the sale was not authorized by the patent owner at all. *Id.*, 264 F.3d at 1105. Similarly, *Jazz Photo*'s parenthetical following that citation erroneously presumes that a license from the U.S. patent owner would have been required even if the sale in Germany had been authorized. *Id.* At most, *Boesch* holds, consistent with Supreme Court precedents prior and since, that a sale made without the authorization of the patent owner does not exhaust the patent owner's rights. It does not support the proposition of *Jazz Photo* and its progeny that authorized foreign sales cannot exhaust domestic patent rights.

C. Neither the Uruguay Round Amendments Act Nor the TRIPS Agreement Nor Concerns for Extraterritoriality Preclude Exhaustion Upon Foreign Authorized Sales.

The Federal Circuit also cannot distinguish *Kirtsaeng* by asserting a separate statutory basis to preclude exhaustion under Section 271(a), as part of the Uruguay Round Amendments Act of 1994, 108 Stat. 4988. This argument suffers from four fatal flaws.

First, exhaustion does not apply solely to the right to exclude *sales*. Rather, an authorized sale extinguishes *all* of a patentee's rights to control use or disposition of that particular article. As the Supreme Court reaffirmed in *Quanta*, "the initial authorized sale of a patented item terminates all patent rights to that item." *Id.*, 553 U.S. at 625. "When the patented machine rightfully passes to the hands of the purchaser from the patentee, or from any other person by him

authorized to convey it, the machine is no longer within the limits of the monopoly."[38] And, as this Court recently observed, the purpose of the exhaustion doctrine is "avoiding re-imposition of section 271 constraints on an authorized acquirer... ." *Helferich*, 778 F.3d at 1305. Thus, exhaustion applies to all patent rights in the vended article. There is no basis to distinguish exhaustion of importation from other section 271 rights of use, sale, or offers to sell.

Second, Congress added the reference to importations (and offers to sell) to section 271(a) to comply with the requirements of Article 28(1)(a) of the Agreement on Trade Related Aspects of Intellectual Property Rights of 1994 (the "TRIPS" Agreement). The contemporaneously-adopted footnote to the word "importing" in TRIPS Article 28 clarifies that "this right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6." Article 6 provides, for the purposes of dispute settlement under TRIPS, "nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights." Thus, the United States and 160 other member countries of the World Trade Organization expressly agree that exhaustion of the importation right complies with TRIPS.

Third, had Congress intended by this amendment to articulate a specific position on the scope of

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[38] *Chafee v. Bos. Belting Co.*, 63 U.S. 217, 223 (1859). *See United States* v. *Univis Lens Co., Inc.*, 316 U.S. at 249 (authorized sale of an article "is a relinquishment of the patent monopoly with respect to the article sold."); *Adams v. Burke*, 84 U.S. at 456-457 (same).

exhaustion—particularly given the neutral treatment of exhaustion in TRIPS Articles 6 and 28— or to alter the contours of the exhaustion doctrine, such an important change would be reflected in the legislative history of the 1994 amendment. Yet, Congressional reports are silent on the amendment, and the Administrative Statement neither prescribes nor limits the scope of exhaustion for patented articles imported into the United States after an authorized sale. *See* Statement of Administrative Action, The Uruguay Round Agreements Act at 986 (1994), *reprinted in* 1994 U.S.C.C.A.N. 4040, 4284. This Court may "presume, from Congress's refusal to disturb the existing decisional law of this doctrine (which predated the 1952 Act by nearly a century), an implicit authorization to continue applying the doctrine within its familiar boundaries." *Helferich*, 778 F.3d at 1305. Accordingly, there is no support for an argument that the 1994 amendments were intended to, or did, work any change to common-law exhaustion.

Fourth, approval by Congress of three international trade agreements proves that international exhaustion is the rule. Congress approved three exceptions to the rule, but then took the extraordinary step of precluding any Administration from entering into future agreements that detracted from international exhaustion.[39] Thus, it can hardly be said that any of these three agreements represents the letter or policy of the Patent Act, particularly where those agreements

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[39] *See, e.g.*, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, Pub. L. No. 109-108, § 631, 119 Stat. 2290, 2344 (2005); *Fiscal Year 2006 Defense Appropriations and the Fiscal Year 2006 Science, State and Justice Appropriation Bills: Hearing Before the H. Comm. On Appropriations*, 109th Cong., 2005 WL 1350973 (June 7, 2005).

so clearly contravene the common law principles of exhaustion reinforced in *Kirtsaeng*.

Finally, exhaustion after an authorized foreign sale does not threaten extraterritorial application of domestic patent law. At issue here is whether the U.S. patent exhaustion doctrine prevents a U.S. patent holder from further asserting its rights on U.S. soil against a patented article sold abroad with the patentee's authority. Unlike *Boesch*, this case presents no question of whether rights bestowed under foreign law trump U.S. patent rights. *Id.*, 133 U.S. at 703.

Thus, Question 2 should be answered that an authorized sale anywhere in the world exhausts the rights of a U.S. patent owner. *Jazz Photo* should be overruled.

IV. THIS COURT SHOULD CLARIFY THE SCOPE OF EXHAUSTION TO PREVENT THE CONTINUING ILL EFFECTS OF *MALLINCKRODT*, *JAZZ PHOTO*, AND *IMPRESSION PRODUCTS*.

Amici dispute a further presumption in the Federal Circuit opinion—that, despite some 15 amicus briefs to the contrary, limiting the scope of patent exhaustion would inflict none of the types of commercial harms that so concerned the Court in *Kirtsaeng*. *Impression Products*, 816 F.3d at 752. As described below, Lexmark's conduct already has inflicted that very type of commercial injury on the imaging products aftermarket—stifling remanufacture of spent printer cartridges, and increasing consumer costs through supracompetitive pricing. And, its reverberations

already are being felt in the market for automotive parts and service.

If other printer manufacturers follow the *Impression Products* roadmap, an independent imaging industry would cease to exist, and consumers would pay tens of billions of dollars more for cartridges that are no better than independently remanufactured alternatives. If these types of restraints were adopted by the automotive industry, the impact on competition for parts and service, and on prices paid by consumers, would reach into the hundreds of billions of dollars.

A. The Aftermarket Industries Represented by Amici Contribute Hundreds of Billions of Dollars Annually to American Commerce.

1. Aftermarket competition contributes substantially to the American economy.[40] More than 150,000 independent businesses in the United States participate in the market for automotive vehicle equipment, parts and service, providing employment to more than 4.3 million workers. In 2015, nearly $341 billion was spent on motor vehicle repair and maintenance in the United States, or more than 1.9% of gross domestic product. Following expiration of a new car warranty, over 70% of car owners who patronize auto repair shops relied on independent repair shops over new car dealers. Approximately 20% of American consumers bought automotive parts and

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[40] *See, Eastman Kodak Co. v. Image Technical Servs. Co.*, 504 U.S. 451, 462 & n.6 (1992). *See also, Aro Mfg Co. v. Convertible Top Replacement Co.*, 365 U.S. at 357-358 (Justice Black, concurring).

products to maintain, repair, and customize their own vehicles.

The right to repair motor vehicles has attained greater importance over the last decade. A steady trend shows American consumers and businesses keep their cars and trucks in service longer. On average, new car buyers in 2015 own their vehicles for 6.5 years, and used car buyers keep those cars on the road for 5.3 more years–nearly 12 years—and more than 4 years longer than the average in 2006.[41] As cars advance in age, so does the need for consumers and businesses to repair and replace vehicle parts. Studies confirm consumers prefer to obtain parts and service from independent businesses rather than dealerships—benefitting from reduced costs, greater convenience, and higher consumer satisfaction from local repair shops and neighborhood mechanics.[42]

An estimated 2,000 domestic businesses employ some 50,000 people in the United States to recondition and repair office imaging supplies. In 2015, consumers spent more than $15 billion for repair and maintenance of electronic and precision equipment, approximately $5 billion of which was attributable to computer and

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[41] News Release, IHS, *Average Age of Light Vehicles in the U.S. Rises Slightly in 2015 to 11.5 years*, July 29, 2015, http://press.ihs.com/press-release/automotive/ average-age-light-vehicles-us-rises-slightly-2015-115-years-ihs-reports; Phil LeBeau, *Americans holding onto their cars longer than ever*, CNBC, July 29, 2015, www.cnbc.com/2015/07/28/americans-holding-onto-their-cars-longer-than-ever.html.

[42] *Independent vs. dealer shops for car repair*, Consumer Reports, Jan. 22, 2015, www.consumerreports.org/cro/magazine/2015/03/ best-places-to-get-your-car-repaired/ index.htm.

office machine repair and maintenance.[43] Approximately 30% of toner and ink-jet cartridges sold last year were aftermarket products, at a price approximately 50-60% less than new OEM cartridges.[44]

2. Reuse and repair promote sound environmental policies, and conserve resources such as precious metals and petroleum-based plastics. Rebuilding automotive parts typically re-uses 88% of the raw material from the original parts. Rebuilding engines saves 50% of the energy required to produce a new engine. I-ITC estimates reconditioning ink and toner cartridges will keep some 84,000 tons of industrial-grade plastics and metals out of landfills this year. Every remanufactured cartridge saves an estimated 3-4 quarts of oil.[45]

Following expiration of a new car warranty, over 70% of car owners who patronize auto repair shops relied on independent repair shops over new car dealers. Acquisition guidelines of federal agencies, state and municipal governments, and corporations give preference to purchasing refurbished and recycled

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[43] U. S. Census Bureau, 2015 Annual Services Report, Table 2: Estimated Revenue by Tax Status for Employer Firms: 2007 through 2015, supra, note 3, at 2.

[44] *Compare, e.g.,* www.staples.com/Lexmark-T650H11A-Black-Return-Program-Toner-Cartridge-High-Yield/product_760469 ($496.99 new) *with* www.amazon.com/Print-Save-Repeat-Lexmark-T650H11A-Remanufactured-Cartridge/dp/ B004YUDM5M ($168.95 remanufactured).

[45] *See* Clover Technologies, 2014 Sustainability Report at 9 (estimating savings of 7,177 barrels of oil fromcollecting nearly 23 million cartridges), www.clovertech.com/flashpages/sustainability_report/#p=9.

products such as those produced by members of the amici.

B. The Decision Should be Reversed, Otherwise Patent Owners Will Continue to Exploit Uncertainty Over the Scope of Patent Exhaustion to Quash Aftermarket Competition.

This case addresses the two most pressing issues of patent exhaustion for aftermarket competition: whether the aftermarket can be shut down by a mere four words—"for single use only"; and whether a U.S. patent holder can foreclose aftermarket competition merely by moving more manufacturing jobs offshore. Both have been front-burner issues for the imaging supplies industry for the nearly 20 years since Lexmark instituted its "Return" or "prebate" program.[46] If restrictive legends have not yet taken root in other industries, it is primarily because their legality has been challenged in the market and in the courts by companies like Static Control—and because, to date, decisions on this key issue have largely favored the aftermarket industry. The geographic scope of patent exhaustion has become an equally open question since this Court's *Kirtsaeng* decision.

Currently, Lexmark stands alone among major printer manufacturers in its attempts to leverage

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[46] Amici note that Lexmark filed its complaint against Static Control, first raising issues relating to patent exhaustion and "prebate," in December 2002. Another early case did not seek to reverse *Mallinckrodt*, but upheld the Lexmark label as a valid contract under California unfair competition and false advertising law. *Arizona Cartridge Remanufacturers Ass'n v. Lexmark Int'l Inc.*, 421 F.3d 981, 987 (9th Cir. 2005).

Mallinckrodt and *Jazz Photo* against competition from independent remanufacturers. Regrettably, its efforts have succeeded. Independent aftermarket companies estimate they remanufacture as much as 90-95% of the remanufactured laser printer cartridges of leading printer brands such as HP. As a result of that competition, prices for new HP cartridges fell. For Lexmark cartridges, the number is far smaller—by some estimates, a scant 5-10%—and Lexmark's prices have increased.[47]

Prior to *Impression Products*, independent remanufacturing of Lexmark cartridges was on the rise. The district courts in *Static Control* and *Impression Products* held, on the first question presented, that *Quanta* had reversed the Federal Circuit-made "conditional sales" doctrine of *Mallinckrodt*, and that Lexmark's post-sale restrictions could not be enforced against third party remanufacturers under patent law.[48] As a result, the industry had greater confidence that remanufacture of Lexmark cartridges sold domestically did not infringe Lexmark's patents.

Whatever uneasy peace previously existed between OEMs and remanufacturing interests has ended with *Impression Products*. *Impression Products* has upended industry expectations, and exacerbated

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[47] *See Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d at 396 & n.3.

[48] *Ink Techs.*; *Static Control Components v. Lexmark Int'l, Inc.*, 615 F. Supp. 2d 575; *see Static Control v. Lexmark*, 697 F.3d at 421 (affirming finding of non-infringement and thereby declining to review exhaustion holding).

existing uncertainty over the future of independent remanufacturing for Lexmark and all OEM products.

Although printer cartridges have been the poster child for postsale restrictions on patent exhaustion, concerns for the future of remanufacturing hardly are confined to the imaging industry. Automotive OEMs assert that copyright "first sale" exhaustion does not apply to consumers who purchase their vehicles because, they claim, consumers only license rather than purchase parts embedded with software code.[49] Consequently, in the OEMs' view, parts ranging from transmissions and oxygen sensors to window motors, seat positioning, and wipers,[50] can neither be independently manufactured nor lawfully repaired by anyone other than an OEM or authorized dealership. While the OEMs have limited their attacks on the

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[49] *See, e.g.*, U.S. Copyright Office, *In the Matter of Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies*, Dkt. 2014-07, www.copyright.gov/1201/2015/reply-comments-050115/, Comments of John Deere (Mar. 27, 2015) at 5: "A vehicle owner does not acquire copyrights for software in the vehicle, and cannot properly be considered an 'owner' of the vehicle software"; *id.*, Comments of General Motors, at 10-12. The remanufacturing industry immediately understood the impact of these arguments, as did the press: *See* Mike Masnick, *GM Says That While You May Own Your Car, It Owns The Software In It, Thanks To Copyright*, Techdirt, Apr. 23, 2015, www.techdirt.com/articles/20150421/23581430744/gm-says-that-while-you-may-own-your-car-it-owns-software-it-thanks-to-copyright.shtml.

[50] *See*, Robert N. Charette, *This Car Runs on Code*, IEEE Spectrum, Feb. 1, 2009, http://spectrum.ieee.org/transportation/systems/this-car-runs-on-code. As one example, the 2015 GM sport utility vehicle platform uses some 70 modules to control physical part operations.

exhaustion doctrine to copyright first sale (and anticircumvention provisions of the Digital Millennium Copyright Act), it takes little imagination to see how these OEMs could, by merely applying a "single use only" legend, use *Impression Products* to divert the $341 billion currently earned by independent competitors back into their own pockets.

These concerns further are exacerbated by the Federal Circuit's re-imposition of geographic restrictions on exhaustion. To illustrate the flaws in the Federal Circuit's ruling, consider how the Federal Circuit's opinion eliminates patent exhaustion under the following scenarios:

- An OEM's wholly-owned foreign subsidiary assembles automobiles, and sells them to a domestic subsidiary that sells the cars to a domestic dealer, which then sells to consumers.
- An OEM's wholly-owned foreign subsidiary manufactures car parts which it sells to a domestic subsidiary, which are assembled in the United States for sale to a dealer and then to a consumer.
- OEM automobile parts made in the United States are incorporated into automobiles manufactured by the OEM in Canada.
- OEM automobile parts made in the United States are remanufactured by the OEM's subsidiary in Mexico, then re-sold by the subsidiary to an OEM-authorized repair shop in the United States.

These are not mere hypotheticals. According to figures submitted by vehicle manufacturers to the U.S. government, virtually no automobiles and light duty

trucks sold in the United States are assembled entirely from domestically-made parts, and many cars from foreign and domestic automakers are made entirely abroad and imported from plants in Canada and Mexico, as well as Europe and Asia.[51] Restricting patent exhaustion only to domestically-sold goods thus could create havoc with automotive repair.

The realities are even worse for the imaging aftermarket. Title to a toner cartridge typically may pass in several authorized sales before it reaches the end-consumer–from an OEM to one or more retailers or middleman suppliers, and then to the end-purchaser. Lexmark's contractual restriction arises only upon opening the box and inserting the cartridge, *i.e.*, after title has passed to the end-purchaser. Yet, under *Impression Products*, none of the prior authorized sales would have exhausted Lexmark's patent rights.

Moreover, cartridges returned to Lexmark for recycling or remanufacture[52] may be refilled and repaired by Lexmark in a foreign factory, slapped with another restrictive label, and placed in a new box that asserts anew revived patent rights – and sold several more times in authorized sales.

Given that a cartridge can be repaired and refilled multiple times, title may pass to any particular cartridge in 20 or more authorized sales. Yet, the

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[51] *See* National Highway Traffic Safety Administration, American Automobile Labeling Act Reports, www.nhtsa.gov/Laws+&+Regulations/Part+583+American+Automobile+Labeling+Act+(AALA)+Reports.

[52] *Lexmark Int'l, Inc. v. Static Control Components, Inc.*, 134 S. Ct. 1377, 1383 (2014).

Federal Circuit's opinion grants Lexmark essentially perpetual control over the life of that cartridge, and exposes any end-purchaser that gives the cartridge to another remanufacturer, and any independent remanufacturer, to potential liability for patent infringement.

The proposal of the United States fares no better in the marketplace. It is hard to conceive of any practical way in which contractual restrictions upon thousands of parts in automobiles or scores of parts in toner cartridges could reliably be passed to the consumer or a servicer. As such, the United States' proposed solution provides no safe pathway for competitors or users to avoid infringement, and no assurances that hundreds of billions of dollars of commercial transactions can proceed unimpeded by threats of liability.

Finally, *Impression Products* fails to recognize the practical impossibility for the aftermarket to know whether a particular patent owner has voluntarily acceded to patent exhaustion. Lexmark's conduct provides an object illustration of the Federal Circuit's presumptive non-exhaustion rule. Lexmark accused Static Control of active inducement and contributory patent infringement for providing components for Lexmark-manufactured cartridges under the IBM label, and sought damages and injunctive relief based on the remanufacture of spent IBM cartridges. Only years later did Static Control learn in discovery that no patent-based post-sale restrictions were asserted over

hundreds of thousands of IBM cartridges.[53] If *Impression Products* is not reversed, competitors cannot presume patent exhaustion upon an authorized sale, and the ability to repair and remanufacture may only be determined through litigation. This Court's precedents provide the only sensible rule, by deeming that patent exhaustion occurs upon an authorized sale anywhere in the world.

If the Court does not clearly reverse *Impression Products*, patent owners will become emboldened to further restrict exhaustion, and remanufacturers would be well advised to curtail their businesses so as not to become the next test case for possible certiorari to this Court. These businesses and consumers still face the Hobson's choice to either stop doing business or roll the dice in a suit for patent infringement—and face the possibility of paying enhanced damages, injunctive relief, attorney fees, and costs.

The businesses of members of the amici, and consumers of aftermarket products and services, have incurred the risks of uncertainty for too long. Amici thus urge this Court to reverse *Impression Products*, and to recalibrate the law in accordance with its established precedents defining the scope of exhaustion, permissible repair, and unfair competition.

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[53] *Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 487 F. Supp. 2d 830, 854 (E.D. Ky. 2007). *See also Static Control Components, Inc. v. Lexmark Int'l, Inc.*, 697 F.3d at 417.

CONCLUSION

The Federal Circuit decision in *Impression Products* should be reversed on Questions Presented 1 and 2.

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